

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: JULY 10, 2013

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager



TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #4: Unaudited Year-end Financial Report for FY 2012-13

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. Note the receipt of and file the Unaudited Year-End Financial Report for Fiscal Year 2012-13.
2. To continue the relationship with the County for payroll reporting and accounting services, direct the Executive Officer to:
 - a. Notify the County by July 24, 2013 that it intends to continue contracting payroll services through the County, so that the County and LAFCO can negotiate a new contract.
 - b. Secure a Federal and State Employer Identification Number for meeting the terms of the existing contract.
 - c. Complete IRS Form 8655 appointing the County as LAFCO's Reporting Agent to establish the new reporting relationship.
 - d. Complete State Employment Development Department Form DE48 authorizing the County to act on LAFCO's behalf in tax reporting matters.
 - e. Negotiate a new contract with the County for payroll reporting and accounting services.
 - f. Return this matter to the Commission for finalizing the new contract.

2012-13 YEAR-END FINANCIAL REPORT:

Staff is presenting the Commission with its year-end review of the FY 2012-13 Budget which includes expenditures and reserves, revenues, and cash in the County Treasury. Attachment #1 to this report is a spreadsheet summarizing the unaudited financial activity for the period July 1, 2012 through June 30, 2013. The spreadsheet identifies that total expenditures were within appropriation authority for all fund categories and total revenues were above projections due to an increase in application receipts received during the year. Additional information, in narrative form regarding the year-end review, is provided below.

Expenditures and Reserves

Expenditures comprise two categories of accounts: 1) Salaries and Benefits and 2) Services and Supplies. The unaudited Total Expenditures at June 30 was \$824,975 (83% of Final Budget); the difference of \$164,764 between the amended budget and unaudited total is explained below. During FY 2012-13, the Commission did not authorize activity for the Contingency and Reserve accounts; therefore, the entirety of the Contingencies (\$84,730) and Reserves (\$313,400) accounts were carried forward into FY 2013-14.

1. Salaries and Benefits (1000 series)

The Salaries and Benefits series of accounts (1000 series) had expenditures of \$559,037 for the year, representing 90% of budget authority. No extraordinary expenditures occurred for this series. However, roughly \$52,000 in budgeted activity did not take place (roughly \$43,000 for the approved secretary position and \$9,000 for the retirement replacement benefit plan for which LAFCO has not been billed to date). Additionally, one Benefit account ended the year significantly over the budgeted amount. Account 1222 (Short-term disability) now includes Psychological Services (formerly 1220), resulting in a higher than budgeted amount for Account 1222.

2. Services and Supplies (2000 and 5000 series)

A. Year-End Activity

Expenditures for Services and Supplies (2000 and 5000 series of accounts) are at \$265,938 for the year, or 72% of Budget authority. However, \$19,823 in invoices were submitted for payment to the County Auditor in June but will be processed in July. The invoices mainly comprise payment for temporary labor services for \$4,960 (Account 2335), legal services for \$3,986 (Account 2400), the office lease for \$3,984 (Account 2905), and environmental consulting for \$3,217 (Account 2424). The funds for these activities have been carried forward into FY 2013-14.

B. Status of Ongoing Commission-approved Projects

SCANNING PROJECT: In February 2012, the Commission committed up to \$35,462 to scan the closed proposal files and other records that were back-logged for archival purposes. The project is now complete and the total costs of \$32,415

are under budget (\$25,535 paid to the vendor and \$6,880 for overtime for the clerk, deputy clerk and contract secretary to prepare the files for scanning by the vendor) by \$3,047.

WEBSITE UPDATE: As a part of the FY 2012-13 budget, the Commission approved the expenditure of up to \$10,629 for updating the LAFCO website. The new website is anticipated for activation just prior to the July hearing. To date, the contractor (County ISD) has charged \$8,598 for the project. Staff will provide a final cost total during the FY 2013-14 First Quarter Financial Review.

FISCAL INDICATORS AND SHARED SERVICES PROJECT: The Commission authorized during the FY 2012-13 budget approval process the negotiations with Orange LAFCO to acquire access to its Fiscal Indicators and Shared Services programs for implementation by our LAFCO. The Executive Officer suspended contract negotiations with Orange LAFCO in June 2013 for license of Orange LAFCO's *Fiscal Indicators and Shared Services* program, which had an approved budget authorization of \$2,500. The hurdles encountered for use of the programs were numerous and not feasible for San Bernardino LAFCO such as the development of an additional and dedicated website to run the program, lack of technical support, lack of customization ability and questions on overall security and maintenance issues. Instead, this project will be undertaken by LAFCO staff through the County's ISD department. The following identifies the new course of action to provide the information identified for the second cycle of service reviews:

Fiscal Indicators

For the Fiscal Indicators portion of the project, LAFCO staff has consulted financial literature and purchased a customized spreadsheet (at minimal cost) that provides for a basic replacement of the Orange LAFCO program. To make the spreadsheet into an effective and useful program, staff will be meeting with County ISD to formulate a work plan for placement of the information on the LAFCO website. Staff will provide an update for this project to include estimated costs, timing, and Commission approval during the first quarter budget review anticipated for the October hearing.

Shared Services

For the Shared Services portion of the project, the Executive Officer will be working with the County to assist in developing this system to support the County Vision and the LAFCO service review needs. Staff will provide an update for this project to include estimated costs, timing, and Commission approval following further consultation with the County Executive Officer, representatives from County ISD and possibly the stakeholders groups (to be formed shortly).

PROJECT COST SUMMARY: In sum, through the end of the year the three projects have \$7,578 in remaining funding. These previously approved funds will be

carried forward into FY 2013-14 for any potentially remaining costs for the website update and for the Fiscal Indicators and Shared Services programs.

Activity	Budget	Total Cost	Budget - Cost
Scanning (includes overtime)	\$35,462	\$32,415	\$3,047
Website Update	\$10,629	\$8,598	\$2,031
Fiscal Indicators/Shared Services	\$2,500	\$0	\$2,500
Total	\$48,591	\$41,013	\$7,578

3. Contingency and Reserves (6000 series)

The Commission has not authorized any activity in the Contingency or Reserve accounts during the fiscal year. In addition, during the year the Commission increased Contingencies (Account 6000) by \$40,403 to \$84,730 to accommodate additional carryover from the prior year.

Revenue and Proposal Activity

1. Revenues at Year-end

The unaudited Total Revenues at year's end is \$1,273,907 which is above budget projections by roughly 4%. The items below outline the revenue activity for the year:

- Interest (Account 8500) – One hundred percent of the interest projected for the year was received by the County Treasury. However, interest rates remain low resulting in this revenue stream being minimal.
- Apportionment (Account 8842) – Of the apportioned costs to the County, cities, and independent special districts, 100% was received. Of note, the County Auditor-Controller deducted the apportionment cost from one special district and transferred that sum to the Commission.
- Fees and Deposits (Accounts 9545-9800) – The Fees and Deposits series of accounts has received 318% of its budgeted revenue, or \$54,765, mainly due to an increase in application receipts received during the year. The budget amount for the year was \$17,200. The revenue received is comprised of the following:

Cost Recovery and Refunds for completed actions	\$4,250	8%
Service Contracts	\$23,060	42%
Proposals	\$27,455	50%
TOTAL	\$54,765	100%

- Other Types of Revenue (Accounts 9910-9970) – In sum this category of revenue accounts exceeded budget projections by four percent.

2. Proposal Activity

The figure below identifies the number of proposals, service contracts, and service review deposits received through the year. The figure identifies proposals met budget projections and service contracts far exceeded projections. Only one proposal required a protest hearing this year, and the implementation of the second cycle of service reviews has been delayed as outlined above, so no deposits were collected. Attachment #2 to this report is a chart showing the yearly comparison of proposal, service review, and completed service review activity.

Activity	Budget	ACTUAL	
		No.	% of Budget
Proposals	2	2	100%
Service Contracts - Commission approval	1	2	200%
Service Contracts - Admin (E.O.) approval	3	11	367%
Service Review Deposits	20	0	0%
Protest Hearing Deposits	2	1	50%

Service Reviews anticipated to require additional time due to complexity, lack of agency participation, or lack of agency resources were deferred to the end of the first round. Six service reviews were completed during the year with the final two service reviews of the first round scheduled for completion at the July hearing. The Commission has already initiated the second cycle Service Reviews for the Valley region and staff is currently formulating the engagement plan. While this is a state mandated program with no application fees for processing, by policy and practice direct costs are charged back to the entities and are shown in the "cost recovery" discussion in the Fees and Deposits shown above.

Staff believes that the stagnation of application filings have hit bottom. This is based upon its understanding of current activity forecasts for the Inland Empire that the economic and housing challenges are climbing out from the biggest economic slump since the Great Depression. It is hoped that the activity levels shown for this Fiscal Year will continue in the upcoming year.

Fund Balance

As of June 30, 2013, the Commission's balance in the County Treasury was \$621,355. This amount is comprised of the categories shown in the chart below. The entirety of the Commission's Contingencies (\$84,730) and Reserves (\$313,400) were carried forward into FY 2013-14.

JUNE 30, 2013 Cash Balance	\$621,355
<i>Liabilities</i>	
Unearned Revenue from open applications	(12,750)
Deposits Payable to be spent or refunded from open applications	(2,603)
Accounts Payable <i>(as of July 8, 2013)</i>	(19,823)
FUND BALANCE (Cash - Liabilities)	\$586,179
<i>Committed (formal action to impose, remove, or modify)</i>	
COWCAP Reserve (Account 6010)	(46,780)
Compensated Absences Reserve (Account 6030)	(66,620)
<i>Assigned (limitation resulting from intended use)</i>	
Ongoing Approved Projects (2000 series)	(7,578)
Contingency (Account 6000)	(84,730)
General Reserve (Account 6025)	(200,000)
Estimated Carryover into FY 2013-14, used to balance budget (Account 9970)	(142,779)
<i>Unassigned, Additional Carryover into FY 2013-14 (as of July 8, 2013)</i>	\$37,692

After accounting for liabilities, committed, and assigned funds, the additional carryover in FY 2013-14 is \$37,692 (rounded). At the first quarter review, staff will present a discussion of the use of these revenues and recommend the appropriate action or placement of the unassigned, additional carryover.

PAYROLL AND ACCOUNTING CONTRACT WITH COUNTY:

LAFCO has contracted with the County for payroll and payroll reporting and accounting services since 1981 when it became independent of the County. As a part of this relationship, on behalf of LAFCO the County has deposited and paid LAFCO's federal and state tax liabilities, while utilizing the County's Federal and State Employer Identification Number ("EIN").

The County has notified LAFCO that recent changes in payroll reporting in the Internal Revenue Code as a result of the Affordable Care Act require the establishment of a payroll reporting relationship (in this case the relationship between the County and LAFCO). The County's letter dated June 21, 2013, is attached to this report as Attachment #3. Under the prior structure, the County was considered the "Agent" for LAFCO. Under the new structure, the County will be considered the "Reporting Agent" for LAFCO. This new reporting relationship will need to be represented in a new contract for Payroll and Accounting services. According to the County, payroll will continue to be processed in the

same manner, but LAFCO's payroll will now be reported under LAFCO's separate Federal and State EIN, not under the County's.

LAFCO has the option to terminate its reporting relationship with the County and deposit and pay its own federal and state tax liabilities. Should the Commission determine to choose this option, LAFCO would be responsible for its own payroll accounting and reporting. Currently, LAFCO and other special districts enjoy efficiencies in payroll processing under the County system. LAFCO staff does not recommend this option as it would cost more in time and money to do this work independently.

Alternatively, staff recommends that this relationship for payroll services with the County continue. The County intends for the new contract to become effective October 1, 2013. Under the new contract, the County will continue to deposit and pay tax liabilities on behalf of LAFCO, using LAFCO's separate Federal and State EIN. The County's letter indicates that the costs associated with this additional level of effort will be passed onto LAFCO. However, LAFCO staff believes this additional cost will be less than if LAFCO staff was to assume reporting and accounting responsibilities. According to the County the following is necessary to continue this relationship:

- LAFCO needs to notify the County by July 24, 2013 that it intends to continue contracting payroll services through the county, so that the County and LAFCO can negotiate a new contract.
- Secure a Federal and State Employer Identification Number for meeting the terms of the existing contract.
- Complete IRS Form 8655 appointing the County as LAFCO's Reporting Agent to establish the new reporting relationship.
- Complete State Employment Development Department Form DE48 authorizing the County to act on LAFCO's behalf in tax reporting matters.

The recommended items for Commission action to comply with these requirements are identified on page 1 of this report.

CONCLUSION:

Total expenditures were within appropriation authority for all fund categories and total revenues were above projections due to an increase in application receipts received during the year. The entirety of the Commission's Contingencies and Reserves were carried forward into FY 2013-14.

Most of the special projects approved by the Commission were completed during the fiscal year. The primary exception is the Fiscal Indicators and Shared Services programs outlined in the narrative above. These activities have been added to the ongoing work plan for Fiscal Year 2013-14. Additionally, staff recommends that the relationship with the County for payroll services continue.

MT/KRM

Attachments:

1. [Spreadsheet of Year-end Expenditures, Reserves, and Revenues for FY 2012-13](#)
2. [Chart Illustrating Yearly Proposal, Service Contract, and Service Review Activity](#)
3. [Letter from County of San Bernardino dated June 21, 2013](#)